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SUBJECT: GAZPROM'S SURPRISE VISIT TO TURKMENISTAN YIELDS NO AGREEMENT

Summary

1. (SBU) On June 19 President Niyazov invited Gazprom Chairman Alexey Miller to Turkmenistan to discuss additional gas supplies for 2006 and gas deliveries for 2007 and 2008. Although no deal was struck, the Turkmenistani side offered increased volume to Gazprom, but did not accept the offer to keep the price at \$65 per thousand cubic meters nor did it make any formal counter-offer, despite press reports. END COMMENT

Official Turkmenistan News: No New Deal?

2. (SBU) On the heels of Miller's visit to Ashgabat, the official government of Turkmenistan website Turkmenistan.ru reported that the parties reached no new agreements and that Gazprom representative Alexey Miller asked to postpone the negotiations in order to consult with Moscow. Two days later, the same website ran an article covering the meeting of the European Parliament delegation headed by European Member of Parliament Jan Maat with the Oil and Gas and Mineral Resources Minister Gurbanmyrat Atayev. In the article Atayev said that Turkmenistan wanted to raise the price of gas to \$100 per thousand cubic meters starting in the second half of 2006, but that Gazprom's offer was the current \$65 price [Note: In February, President Niyazov announced that Turkmenistan would raise gas prices to \$100 in September or October of this year. End note].

3. (SBU) However, during a meeting on June 23, Gazprom Deputy Director of the Representative Office to Turkmenistan Sergey Toropin told PolOff that the meeting with Miller was requested by Turkmenistan and that no specific price was discussed during the negotiations. According to Toropin, the parties discussed only the possibility of increasing gas volumes from Turkmenistan. Toropin further commented that the request for a meeting was likely prompted by the recent price deal of \$140 per thousand cubic meters that Gazprom made with Kazakhstan. He further explained the lack of a deal by speculating that pricing factors such as the quality of gas, length of transportation and the contract framework were not taken into account by Turkmenistan. When asked about Atayev's recent statements in the press that

Turkmenistan would "halt exports" to Russia without a contract in the next month-and-a-half, Toropin "refused to speculate."

¶4. (SBU) Toropin also gave an impression that Gazprom would not be against cooperation in Turkmenistan with other energy companies given the multitude of financial investment required for various pipeline projects. He specifically said that Gazprom would not oppose cooperation with U.S. energy majors in Turkmenistan. Interestingly enough, Toropin was skeptical about Niyazov's flurry of deals and gas agreements, stressing that any long-term cooperation in Turkmenistan should be based on an independent audit of gas reserves of Turkmenistan and not the "very optimistic estimates of Turkmen geologists."

Gazprom's Existing Deal With Turkmenistan

¶4. (SBU) In 2003, Gazexport, a wholly-owned subsidiary of Gazprom, and Turkmenistan signed a long-term gas sales and purchase contract that is valid for the duration of the 25-year Turkmenistan-Russia gas cooperation deal. In 2005, Gazexport purchased around 8 bcm (billion cubic meters) of gas from Turkmenistan at \$44 per thousand cubic meters. Later in 2005, Turkmenistan and Gazprom agreed to increase gas supplies to Russia in 2006 to 30 billion cubic meters per year but at an increased price of \$65. [Note: Turkmenistan also increased the gas price for its exports to Iran to \$65 earlier this year. End note].

Ukraine Still Trying to get a Deal with Turkmenistan

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¶5. (SBU) On June 19, Ukrainian President Victor Yushchenko called Niyazov and asked him to meet with the Ukrainian Fuel and Energy Minister Plachkov to discuss possible gas supplies to Ukraine. No official information is available whether Niyazov gave his consent. According to Vedomosti website, Yushchenko has offered to buy 11 bcm of gas required by Ukraine, but Niyazov decided to postpone his answer until the completion of negotiations with Russia. Gazprom's Toropin believes that such negotiations will resume "in the nearest future." [Note: In December 2005 Ukraine agreed to purchase 40 bcm at \$50 in the first half and \$60 in the second half of 2006. end note]. However, during the meeting with the European parliament, Minister Atayev said that Ukraine did not own any main pipelines to transport gas from Turkmenistan, and "hence this matter needs to be resolved with the transiting countries." In tune with Atayev, Toropin told PolOff that "the Turkmen contract with Ukraine has expired." On the subject of the gas price for Ukraine, Toropin insisted that it is between the trader [RosUkrEnergo] and the country to decide. "Gazprom is just a transporter taking only a transportation tariff".

Comment

¶6. (SBU) In previous years, Niyazov waited until winter -- the period when the demand for gas is in its peak -- to start bargaining for new gas prices. However, it seems that Niyazov, encouraged by his recent negotiating successes at the end of 2005 and increased stature on the world energy stage, believes that he can pull off a price hike victory once again. But whether Russia will agree to a deal with Turkmenistan at the expense of even further deteriorating relations with Ukraine -- Russia's main gas transistor country -- remains a major question. Another interesting insight is that for all of Niyazov's maneuvering and new pipeline deals -- which many believe to be purely to extract a higher price from Russia -- he is apparently not fooling the Russians. End Comment.

